



Recommendation on the rules and methods of applying the WIRON interest rate index (or indices from the WIRON Compound Indices Family) when entering into new contracts for benchmark-based products in PLN offered by financial market entities

Document of the National Working Group for benchmark reform

**Recommendation on the rules and methods of applying
the WIRON interest rate index
(or indices from the WIRON Compound Indices Family)
when entering into new contracts
for benchmark-based products in PLN offered by financial market entities**

(Draft)

This Recommendation has been prepared to ensure proper and precise application of benchmarks in contracts by financial market entities. This objective follows from REGULATION (EU) 2016/1011 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014, and REGULATION (EU) 2021/168 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 10 February 2021 amending Regulation (EU) 2016/1011 as regards the exemption of certain third-country spot foreign exchange benchmarks and the designation of replacements for certain benchmarks in cessation, and amending Regulation (EU) No 648/2012 (hereinafter: 'BMR').

This Recommendation has been prepared by the Banking Products Stream of the National Working Group for benchmark reform based on analyses and discussion of experts. The Recommendation consists of the following recommendations on the rules for calculating interest.

The Recommendation also aims to provide financial market entities with **best practices for applying the WIRON interest rate benchmark** (Warsaw Interest Rate Overnight) or indices from the WIRON Compound Indices Family to calculate floating interest rate **when entering into new contracts with clients for benchmark-based products in PLN**.

These recommendations are not obligatory and they may be applied freely, considering the specific nature of each financial market entity and clients with whom the contracts are concluded. Financial market entities may apply the WIRON interest rate benchmark (or indices from the WIRON Compound Indices Family) to an extent other than as set forth in this Recommendation, as well as other rates and/or benchmarks. Financial market entities may also apply, for the purpose of determining interest rate in contracts, a value of the WIRON benchmark (or an index from the WIRON Compound Indices Family) calculated otherwise than as described herein. Likewise, financial market entities are not bound by the information requirements proposed herein.

Introduction:

1. It is recommended that when entering into a contract with a client, a reference should be made to the Rules of WIRON Interest Rate Index, adopted by Resolution of the Management Board of GPW Benchmark (hereinafter referred to as 'Administrator') No 85/2022 of 30 November 2022, as amended, and for the WIRON Compound Indices Family – to the Rules of WIRON Compound Indices Family, adopted by Resolution of the Management Board of GPW Benchmark No 86/2022 of 30 November 2022, as amended (hereinafter jointly or individually referred to as '**Rules**'). A reference should also be made to the Administrator's statement referred to in Article 27 of the BMR.

Additional information for clients should also be prepared on the basis of those documents.

2. The WIRON interest rate index and indices from the WIRON Compound Indices Family are published and made available on the basis of the Rules.

RETAIL CLIENT

Mortgage loans and other loans

When specifying the recommendation for loans to retail clients, the following factors have been considered:

- clients' broad and easy access to the values of the WIRON 1M Compound Rate published on the Administrator's websites,
- a formula for calculating interest rate on loans using the recommended method that is clear and understandable to clients,
- the possibility of informing the clients, effectively and sufficiently in advance of the payment date, about the amount of the loan instalment to be repaid.

Recommendation No 1

For floating-rate loans, the interest rate based on the WIRON 1M Compound Rate is recommended.

Recommendation No 2

For loans with a periodically fixed interest rate, after the term of such interest rate expires, the client may perform the contract with a periodically fixed interest rate or floating rate defined in that contract (the recommended interest rate is the floating rate based on the WIRON 1M Compound Rate).

The adopted value of the WIRON 1M Compound Rate is the value made available by the Administrator under the Rules before the beginning of each subsequent interest period and updated by financial market entities in subsequent interest periods.

Justification for the rules recommended

The rules described in Recommendations 1 and 2 have been considered by the Banking Products Stream of the National Working Group for benchmark reform to be the best compromise between the frequency of interest rate changes, which should take place at intervals that are as close as possible to the compounding intervals occurring in the market (i.e. overnight periods), and the respect for the legitimate interests of the consumer. The WIRON 1M Compound Rate is an index which allows for informing the consumer about the interest rate before the beginning of the interest period, so that the consumer can receive, sufficiently in advance, information about the interest due and have time to accumulate the necessary funds.

CORPORATE CLIENT

Overdraft facility

Recommendation

For the purpose of determining interest rate, it is recommended to use the WIRON index provided and published by the Administrator. For a given day in the interest period, the last value of the benchmark published by the Administrator on that day should be taken.

Credit/loan other than overdraft facility

Recommendation No 1

For credit/loans other than overdraft facility, it is recommended that the floating rate should be based on the WIRON index (the compound rate of financial market entities) using the 5-business-day lookback with observation period shift (5 days lookback).

Calculation of the interest rate (the compound rate of a financial market entity) may also be done using the WIRON Compound Index.

Recommendation No 2

Given the diverse structure of corporate clients of financial market entities, it is appropriate to also use the rules for determining interest rate based on the WIRON 1M Compound Rate.

The adopted value of the WIRON 1M Compound Rate is a value made available by the Administrator under the Rules before the beginning of each subsequent interest period and updated by financial market entities in subsequent interest periods.

Justification for the rules recommended

The rules described in Recommendation No 1 take into account daily interest rate volatility in financial markets, and the 5-day shift of the interest rate value allows for the communication of the amount of interest before the deadline for interest payment. Many times, the amount of interest must be communicated before the beginning of a given interest period, so the rules indicated in Recommendation No 2 have been proposed as an alternative. The WIRON 1M Compound Rate allows for informing the client about the interest rate before the beginning of the interest period, so that the client can receive, sufficiently in advance, information about the interest due and have time to accumulate the necessary funds.

RETAIL AND CORPORATE CLIENTS

Bank accounts

(settlement accounts, including current accounts, auxiliary accounts, VAT accounts and trust accounts, restricted (escrow) accounts, checking and saving accounts, floating-rate deposits, automatic fund investment, saving accounts, security deposit accounts, accounts of deposited sums, cash pool, and initial margins)

Recommendation

For the purpose of determining interest rate, it is recommended to use the WIRON index provided and published by the Administrator. For a given day in the interest period, the last value of the WIRON interest rate benchmark made available by the Administrator and available on that day should be adopted.

Credit cards and charge cards

Recommendation

It is recommended that the interest rate be based on the WIRON 1M Compound Rate.

It is recommended that financial market entities should adopt, for a given settlement period, the value of the WIRON 1M Compound Rate made available by the Administrator and taken from a day falling in the period of the last 30 business days, and update it in subsequent settlement periods, in accordance with the contract with the client.

Justification for the rules recommended

The recommended rules for bank account products are based on the WIRON index, which best reflects daily interest rate volatility in financial markets.

The recommended rules for credit cards and charge cards, due to the specific nature of those products (the cards function based on a monthly settlement cycle for which interest rate applicable during the cycle is calculated), have been considered to be a solution which takes into account the frequency of interest rate changes, which should take place at intervals that are as close as possible to the settlement periods (1-month periods). The WIRON 1M Compound Rate is also the only rule which allows for the determination of interest rate in advance, both at the time of concluding the contract with the client, including in a consumer credit agreement, and during the term of the contract for a given settlement period.